GANNON CENTER FOR COMMUNITY MENTAL HEALTH

FINANCIAL STATEMENTS

JUNE 30, 2005
AND
INDEPENDENT AUDITORS' REPORTS

GANNON CENTER FOR COMMUNITY MENTAL HEALTH
JUNE 30, 2005

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GANNON CENTER FOR COMMUNITY MENTAL HEALTH

Board of Directors

Name	Title	Term Expires
Barb Potts	President	June 2006
Steven Kahler	Vice-President	June 2008
Penny Pearcy	Secretary	June 2006
David Berry	Treasurer	June 2007
DUBUQUE CO:		
Jim Waller	Member	June 2008
Ann Michalski	Member	June 2007
Eric Manternach	Member	June 2008
David Berry	Member	June 2007
JACKSON CO:		
Marilyn Osterhaus	Member	June 2006
Jan Kunau	Member	June 2007
Jack Willey	Member	June 2008
CLINTON CO:		
Ruthann Papke	Member	June 2006
Lewis Todtz	Member	June 2008

Independent Auditors' Report

To the Board of Directors
Gannon Center for Community Mental Health

We were engaged to audit the accompanying statement of financial position as of June 30, 2005, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Center’s management.

The Center’s former finance director failed to perform proper cut-off procedures relating to accounts receivable aggregating $950,165. Due to this and the fact that the nature of the Center’s receivables causes direct confirmation to be ineffective, we were unable to satisfy ourselves about accounts receivable through other auditing procedures.

Since accounts receivable as of June 30, 2005, materially affect the determination of financial position, results of operations, and cash flows, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

The accompanying financial statements have been prepared assuming that the Center will continue as a going concern. As discussed in Note 11 to the financial statements, the Center has suffered recurring losses from operations, which raises substantial doubt about its ability to continue as a going concern. Management’s plans regarding those matters also are described in Note 11. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with <u>Government Auditing Standards</u>, we have also issued our report dated December 29, 2005 on our consideration of Gannon Center for Community Mental Health’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with <u>Government Auditing Standards</u> and should be considered in assessing the results of our audit.

JIM KIRCHER & ASSOCIATES, P.C.

Dubuque, Iowa
December 29, 2005

GANNON CENTER FOR COMMUNITY MENTAL HEALTH

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2005

	Unrestricted		
	Current	Property and Equipment	Total
Assets			
Cash	$ 375,926	$ -0-	$ 375,926
Accounts receivable, patient services, less allowance for doubtful accounts $532,500	950,165	-0-	950,165
Prepaid expenses	74,364	-0-	74,364
Inventories	37,161	-0-	37,161
Self funded dental surplus	13,692	-0-	13,692
Grants receivable	43,705	-0-	43,705
Property and Equipment:			
Office furniture and equipment	-0-	1,018,208	1,018,208
Leasehold improvements	-0-	391,087	391,087
Accumulated depreciation	-0-	(854,495)	(854,495)
Total Assets	$ 1,495,013	$ 554,800	$ 2,049,813
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$ 172,673	$ -0-	$ 172,673
Due to residents	14,034	-0-	14,034
Accrued salaries	207,467	-0-	207,467
Compensated absences	325,643	-0-	325,643
Installment payable	-0-	204,832	204,832
Line of credit	145,000	-0-	145,000
Total Liabilities	$ 864,817	$ 204,832	$ 1,069,649
Net Assets - Undesignated	$ 630,196	$ 349,968	$ 980,164
Total Liabilities and Net Assets	$ 1,495,013	$ 554,800	$ 2,049,813

See accompanying notes to financial statements.

GANNON CENTER FOR COMMUNITY MENTAL HEALTH

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

	Unrestricted		
	Current	Property and Equipment	Total
PUBLIC SUPPORT AND REVENUE			
Public Support:			
School-Based Youth Program Grant	$ 129,565	$ -0-	$ 129,565
Clinton Schools Social Work Grant	97,951	-0-	97,951
Community Mental Health Services Block Grant	77,118	-0-	77,118
Clinton Schools Case Facilitator	86,864	-0-	86,864
Donations	18,946	-0-	18,946
Jail Diversion Grant	226,131	-0-	226,131
Other	20,684	-0-	20,684
Total Public Support	$ 657,259	$ -0-	$ 657,259
Revenue:			
Dubuque County fee for services	$ 1,795,837	$ -0-	$ 1,795,837
Jackson County fee for services	369,315	-0-	369,315
Clinton County fee for services	849,863	-0-	849,863
Patient and other fees	4,225,936	-0-	4,225,936
Interest	7,061	-0-	7,061
Other	110,649	-0-	110,649
Gain on sale of asset	7,300	-0-	7,300
Total Revenue	$ 7,365,961	$ -0-	$ 7,365,961
Total Public Support and Revenue	$ 8,023,220	$ -0	$ 8,023,220
EXPENSES			
Program Services:			
Community mental health and support services	$ 7,250,536	$ -0-	$ 7,250,536
General and Administrative:			
General and administrative	$ 1,462,488	$ 94,025	$ 1,556,513
Total Expenses	$ 8,713,024	$ 94,025	$ 8,807,049
Changes in Net Assets	$ (689,804)	$ (94,025)	$ (783,829)
Other Changes in Net Assets:			
Property and equipment purchases	(191,824)	191,824	-0-
Principal reductions in installment payable	(12,792)	12,792	-0-
Net Assets Beginning of Year, as restated	1,524,616	239,377	1,763,993
Net Assets End of Year	$ 630,196	$ 349,968	$ 980,164

See accompanying notes to financial statements.

GANNON CENTER FOR COMMUNITY MENTAL HEALTH

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2005

	Community Mental Health & Support	General And Administrative	Total
Salaries	$ 4,811,529	$ 457,967	$ 5,269,496
Payroll taxes	395,797	38,837	434,634
Group health insurance	610,494	68,323	678,817
Group disability insurance	21,877	2,828	24,705
Workmens' comp. insurance	89,781	-0-	89,781
Group retirement	158,663	13,813	172,476
Total salaries and related expenses	$ 6,088,141	$ 581,768	$ 6,669,909
Supplies	$ 302,265	$ 20,385	$ 322,650
Telephone and utilities	-0-	217,942	217,942
Postage and shipping	12,105	13,347	25,452
Occupancy	-0-	231,231	231,231
Equipment rental and maintenance	-0-	75,044	75,044
Travel and vehicle	64,864	8,804	73,668
Meetings	8,864	1,835	10,699
Advertising	24,798	8,066	32,864
Insurance	-0-	114,755	114,755
Dues and subscriptions	12,752	9,694	22,446
Professional fees	90,914	145,826	236,740
Staff development	21,158	177	21,335
Staff recruitment	46,651	7,730	54,381
Purchased services - physicians	252,602	3,000	255,602
Interest expense	-0-	2,084	2,084
Bad debt expense	319,800	-0-	319,800
Miscellaneous	5,622	20,800	26,422
	$ 1,162,395	$ 880,720	$ 2,043,115
Total expenses before depreciation	$ 7,250,536	$ 1,462,488	$ 8,713,024
Depreciation	-0-	94,025	94,025
Total Expenses	$ 7,250,536	$ 1,556,513	$ 8,807,049

See accompanying notes to financial statements.

GANNON CENTER FOR COMMUNITY MENTAL HEALTH

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

Cash Flows From Operating Activities:	
Cash received from patient fees	$ 6,821,693
Cash received from grants	700,119
Cash received from others	110,649
Interest received	7,061
Interest paid	(1,636)
Cash paid to employees and suppliers	(8,346,531)
Net Cash Used From Operating Activities	$ (708,645)
Cash Flows From Investing Activities:	
Cash purchases of property and equipment	$ (191,824)
Proceeds from sale of property and equipment	7,300
Net Cash Used From Investing Activities	$ (184,524)
Cash Flows From Financing Activities:	
Principal payments on installment payable	$ (12,792)
Proceeds from line of credit	145,000
Net Cash From Financing Activities	$ 132,208
Net Decrease in Cash and Equivalents	$ (760,961)
Cash and Equivalents at Beginning of Year	1,136,887
Cash and Equivalents at End of Year	$ 375,926

Reconciliation of Changes in Net Assets to Net Cash from Operating Activities

Changes in Net Assets	$ (783,829)
Adjustments:	
Depreciation	$ 94,025
Bad debt expense	319,800
Gain on sale of property and equipment	(7,300)
Changes in Assets and Liabilities:	
Increase in patient accounts receivable	(419,258)
Decrease in prepaid expenses	81
Decrease in inventories	2,984
Decrease in grants receivable	42,860
Increase in accounts payable	112,642
Decrease in self funded dental insurance surplus	51,599
Decrease in accrued salaries	(87,666)
Decrease in compensated absences	(34,108)
Increase in accrued interest payable	448
Decrease in due to residents	(923)
	$ 75,184
Net cash Used from Operating Activities	$ (708,645)

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

A. Reporting Entity

Gannon Center for Community Mental Health is a non-profit corporation established to provide a comprehensive community mental health program for the diagnosis and treatment of psychiatric and psychological disorders and to promote the prevention of mental illness. The Center operates the following facilities:

Gannon Center for Community Mental Health - Dubuque Office; Dubuque, Iowa
Gannon Center for Community Mental Health - Maquoketa Office; Maquoketa, Iowa
Julien Care Facility; Dubuque, Iowa
Andrew Jackson Care; Bellevue, Iowa
Julien Care Facility - Behavioral Adjustment Unit; Dubuque, Iowa
Gannon Center for Community Mental Health - Clinton Office; Clinton, Iowa

The Center is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law which provide tax exemption for corporations organized and operated exclusively for religious, charitable or educational purposes.

The Center's financial statements are prepared in accordance with U.S. generally accepted accounting principles as prescribed by the Financial Accounting Standards Board for non-profit corporations.

B. Fund Accounting

The accounts of the Center are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, net assets, revenues and expenses. The various funds are grouped as follows in the financial statements:

Current Fund - The unrestricted fund accounts for all resources over which the Center has discretionary control to use in carrying on the operations of the organization in accordance with the limitations of its charter and bylaws except for unrestricted amounts invested in land, buildings and equipment that may be accounted for in a separate fund.

The Center's Board may designate portions of the current unrestricted fund for specific purposes, projects or investment as an aid in the planning of expenses and the conservation of assets. The Center maintains separate accounts for such designation within the current fund and segregates the designated and undesignated portions of the fund within the net assets section of the balance sheet.

Property and Equpment Fund - The property and equipment fund is used to accumulate the net investment in fixed assets and to account for the unexpended resources contributed specifically for the purpose of acquiring or replacing land, buildings or equipment for use in the operations of the organization.

(1) Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

Purchases of fixed assets providing future benefits are directly charged against the current unrestricted fund balance and capitalized in the property and equipment fund.

D. Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Center and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

E. Cash and Cash Equivalents

For the purpose of the statement of cash flows, the organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents at June 30, 2005.

F. Receivables

Receivables are uncollateralized customer and third-party payor obligations.

Payments of receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

(1) Summary of Significant Accounting Policies (Continued)

F. Receivables - (Continued)

The carrying amount of receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

G. Inventories

Inventories are stated at cost (principally on the first-in, first-out basis) not in excess of market value. Market is determined by comparison with recent purchases or reasonable value. Inventories consist of usable supplies.

H. Property and Equipment

Acquisitions of property and equipment in excess of $500 are capitalized. Property and equipment is stated at cost. Depreciation is computed by the straight-line method over the estimated useful lives of 3-12 years.

I. Compensated Absences

Center employees accumulate a limited amount of earned but unused vacation and personal day benefits payable to employees. Amounts representing the cost of compensated absences are recorded as liabilities and have been computed based on current rates of pay.

J. Net Patient Service Revenue

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

K. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

(1) Summary of Significant Accounting Policies (Continued)

L. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

M. Total Column

The total column on the balance sheets and the statement of activities is presented to facilitate financial analysis. Data in these columns does not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Property and Equipment

A summary of changes in property and equipment is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Office Furniture & Equip.	$ 853,534	$ 184,486	$ (19,812)	$1,018,208
Leasehold Improvements	383,749	7,338	-0-	391,087
Total	$1,237,283	$ 191,824	$ (19,812)	$1,409,295

(3) Retirement Plan

The Organization has a contributory 401(k) retirement plan. Substantially all employees are eligible for the salary deferral portion of the plan while employees must have at least one year of continuous service with 1,000 hours worked to be eligible for the Organization's contribution equal to five percent of the employee's gross salary. Employees are vested immediately on salary deferral contributions. Vesting for the Organization's contributions are stepped at a rate of twenty percent a year. Forfeitures from the plan of $33,968 were used to reduce contributions for the fiscal year. Retirement plan expense for fiscal year ended June 30, 2005 was $ 172,476.

(4) Lease Agreements

The Gannon Center for Community Mental Health has entered into a lease agreement with Mercy Medical Center, Dubuque, Iowa for the rental of 12,002 square feet of office space in the Professional Arts Plaza. The lease is for five years commencing on December 1, 1999 and ending on November 30, 2004. As of December 1, 2004, an additional five year term was added to the lease. Rent payments are $8,441 per month with a 3.5% increase on each yearly anniversary date throughout the second term.

The Gannon Center for Community Mental Health has also entered into an operating lease to lease office equipment. The lease is for 3 years commencing on May 5, 2002 and ending on May 5, 2005.

The Gannon Center for Community Mental Health leases 4,366 square feet of office space at 115 S. Olive St. in Maquoketa, Iowa from Jack R. and Pamela B. Rosenberg for $2,936 per month. The lease is for five years commencing September 1, 2002 and ending August 31, 2007.

The Gannon Center for Community Mental Health leases real estate known as the Julien Care Facility from the County of Dubuque, Iowa for a sum of $1 per year. The term of the lease was from July 1, 2001, to June 30, 2002, with an additional one year automatic extension thereafter from July 1, to June 30 each year unless notice of termination is given.

The Gannon Center for Community Mental Health leases real estate known as the Andrew Jackson Care Facility from the County of Jackson, Iowa for a sum of $1 per year. The term of the lease was from July 1, 2002, to June 30, 2003, with an additional one year automatic extension thereafter from July 1, to June 30 each year unless notice of termination is given.

On July 1, 2001, the Center entered into a lease agreement with Mercy Medical Center - Clinton to rent 10,500 square feet of office space for $3,500 per month. The term of the lease is from July 1, 2001 to June 30, 2021. At July 1, 2006, the monthly rental will be adjusted upward by an amount equal to 90% of the percentage increase in the Consumer Price Index. The same formula will apply at the end of each five year increments under the lease.

On November 1, 2001, the Center entered into an additional lease agreement with Mercy Medical Center - Clinton to rent 955 square feet of office space for $478 per month. The term of the lease is November 1, 2001 to October 31, 2002. The agreement automatically renews for successive one year periods unless either party notifies the other of its intent not to renew. The lease was renewed for one year at October 31, 2003, 2004, and 2005.

The Center has also entered into a lease with Property Managers, Inc. to rent 1,862 square feet of office space for $1,086 per month commencing on September 1, 2003 and ending August 31, 2008.

On April 12, 2004, the Center entered into a lease with Property Managers, Inc. to rent 1,058 square feet of office space for $617 per month commencing on May 1, 2004 and ending April 30, 2009.

Rental expense for the year ended June 30, 2005 was $ 231,231.

(5) Line of Credit

The Center has available a $100,000 line of credit with U.S. Bank, Dubuque, Iowa. The line of credit carries a variable interest rate which is the "prime rate" on commercial loans announced by U.S. Bank of Milwaukee. The line of credit has a minimum interest rate of 0% and a maximum rate of 21%. The rate at June 30, 2005 was 6.25%. There was $145,000 outstanding at June 30, 2005.

(6) Installment Payable

The Center has an amount payable to Mercy Medical Center - Clinton for $286,000 of leasehold improvements made to the office space it is leasing from Mercy Medical Center - Clinton. This amount is to be paid off over the term of the lease which commenced July 1, 2001 and ends on June 30, 2021. A down payment of $30,000 was paid at inception with the balance being paid with monthly payments at $1,066 over the term of the lease.

Maturities and payment requirements on long-term debt for the next five years are as follows:

Year ending June 30,	
2006	$ 12,792
2007	12,792
2008	12,792
2009	12,792
2010	12,792
	$ 63,960

(7) Center Risk Management

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

(8) Concentration of Credit Risk:

The Center maintains cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $100,000. At June 30, 2005 the Center has uninsured cash balances of $273,584 at one of the institutions.

(9) Self Insurance

The Center is self-insured for its employees' dental care claims. Insurance providers assist the Center in determining its estimated liabilities for these self-insured claims.

(10) Economic Dependence

The Center receives a substantial amount of its support from local county government. A significant reduction in the level of this support, if this were to occur, may have an effect on the Center's programs and activities. A large portion of the Center's revenue from patient fees is paid by third-party reimbursement whereby patients qualify for funding through Title XIX of the federal Social Security Act. Changes in the level of funding for this program could have a considerable effect on the patient's ability to pay for services provided.

(11) Going Concern

As shown in the accompanying financial statements, the Center incurred a net loss of $783,829 during the year ended June 30, 2005. In addition, since June 30, the Center has borrowed an additional $326,600 from U.S. Bank due to cash flow problems caused by continuing operating losses. Those factors create an uncertainty about the Center’s ability to continue as a going concern. Management of the Center is implementing a plan to reduce expenses, improve on its accounts receivable collections, and obtain additional funding from local county governments. The financial statements do not include any adjustments that might be necessary if the Center is unable to continue as a going concern. The ability of the Center to continue as a going concern is dependent on achieving the above objectives.

(12) Subsequent Event

On August, 2005, the Center closed the Andrew Jackson Care Facility in Bellevue, Iowa due to operating losses as a result of a declining census.

(13) Prior Period Adjustment

An adjustment of $157,269 was made to net assets as a result of two errors. As a result of its ARO cost report, the Center had an adjustment of $154,572 to its adult rehabilitation option revenue from prior years. Also, an error resulted in grant revenue being overstated by $2,697 in prior periods.

July 1, 2004, net assets as previously stated	$ 1,921,262
Previous overstatement of ARO and grant revenue	(157,269)
	$ 1,763,993

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Directors
Gannon Center for Community Mental Health

We have audited the financial statements of Gannon Center for Community Mental Health, Dubuque, Iowa as of and for the year ended June 30, 2005, and have issued our report thereon dated December 29, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gannon Center for Community Mental Health's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Gannon Center for Community Mental Health's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

Compliance

As part of obtaining reasonable assurance about whether Gannon Center for Community Mental Health's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under **Government Auditing Standards.**

Comments involving statutory and other legal matters about the Center's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. Comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of Gannon Center for Community Mental and other parties to whom the Center may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Gannon Center for Community Mental Health during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

JIM KIRCHER & ASSOCIATES, P.C.

Dubuque, Iowa
December 29, 2005

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

Reportable Condition:

Accounts Receivable Procedures

The Center's procedures relating to its accounts receivable are not operating properly. Due to procedures used by the prior finance director, an accurate accounts receivable report was not run on March 31, 2005. Subsequent to that date, either no report was run or run without regard to proper cut-off. Compounding the problem, the Center changed accounts receivable software on July 1, 2005. Also as a result of the decisions and procedures followed by the previous finance director, staff were inadequately trained and supervised. This resulted in delayed billings, and as a result collections fell behind.

Recommendation

The Center must get all billings and collections up to date so that the Center has accurate accounts receivable figures in which to make financial decisions. This should also improve the cash flows and improve collectability of its receivables.

Response

Management has committed to reviewing policies and procedures to ensure that accounts receivable reports can be accurately prepared. Subsequent to the departure of the prior finance director in October, 2005 steps have been taken to properly staff, train and supervise the billing, collection and reporting processes.

Conclusion

Response Accepted